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25 May 1979

MEMORANDUM FOR: Director of Economic Research
FROM: Director of Central Intelligence
SUBJECT: SCC Meeting on Energy, 24 May 1979

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1. At the SCC meeting on energy, a number of points were made which may be of interest to you:

a. Secretary Schlesinger indicated the world is at a net 1.5 million barrels a day shortage;

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[redacted] that the United States is picking up more than its share of the 1.5 million barrel a day shortage.

b. Secretary Blumenthal indicated that he does not believe that we as a country adequately understand the impact of increases in the price of oil on either the U.S. or the world economies. He further indicates that he thinks the major problem today is that OPEC as a cartel has finally realized the basic laws of cartels, i.e., that you can sell less and push the price up and get the same return. [redacted]

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2. The end result of the meeting was that Ed Fried will be detached from his regular duties and will chair a small committee that will crash out a study by next Thursday night. The objective will be to look at the probable trends in oil, supply, and prices and possible remedies that we can take. There will be an SCC meeting a week from Friday, either to review the Fried report or to get a status report on it should he not be able to complete the report by that time. [redacted]

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3. No specific actions came out for us. We are not invited to be part of the Fried committee.

I thought your 39-page draft paper was excellent. I would suggest putting into smoother form so that we can circulate it for the benefit of those who will be dealing with this problem over the weeks ahead. As you do that, I have a few minor suggestions:

- On page 17, we say that the USSR and Eastern Europeans will become net importers. Are we more sure that this is true than when we said something like it in the spring of '77? Isn't it possible that they will accept a slow-down in their economy rather than finding foreign exchange to import oil?
- Also on page 17, I believe 1978 should read 1980.
- On page 38, in the last sentence we indicate that the inflationary impact increase today is substantially greater than '73-'74 because the oil share of total production cost is almost doubled. I don't understand that and would appreciate some elaboration. I leave it to you to decide whether there should be another sentence or two of elaboration in the paper.

[Redacted]

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4. The overall objective is to see if any U.S. initiatives should be taken before the economic summit and to further develop work already under way as to what actions we should take at the economic summit. [Redacted]

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5. Also appreciated your phone call before the meeting which was helpful to me and assisted in my making our proper contribution. [Redacted]

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STANSFIELD TURNER

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cc: DDCI
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